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COUNTRY: Greece

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SUBJECT: Establishment of Optimum Conditions
for Capital Investments

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1. The Greek Government is convinced that the investment of foreign capital and home savings in projects under the national reconstruction programme will present no serious difficulties whatsoever. This belief is based on the fact that the necessary safeguards for the security of the capital offered for investment have more or less been established. These safeguards are:
 - (a) The completeness of the programme from the technical and economic point of view. The respective discussions have, indeed, shown that the plan is made up of clearly defined projects, the profitability of which has been satisfactorily proved by technical and economic studies already completed or near completion;
 - (b) The improvement noted in Greek public finances--the Budget will, in fact, show a surplus for the fiscal year 1953-54--as well as in the balance of payments, where the deficit tends to be kept within reasonable limits.
2. Of course, the sudden and most important reduction in the deficit in the balance of payments does not yet mean that it had been permanently and organically balanced even before the programme of economic development has had time to exert a salutary effect on the economy, because this reduction has not been so much the effect of an increase in exports and invisible receipts, but rather that of the drop in imports due to an anti-inflationary policy. In other words, the improvement in the balance of payments has been realized at the expense of consumption and under less favorable terms of trade - following the readjustment of the Drachma - so that the saving ability of the Greek nation has been impaired. In any case, the speedy improvement in the balance of payments is a short-term achievement of the economic policy of the Government, and it may be hoped that, in combination with the advantages offered by this policy, it will help to establish the two basic conditions for the investment of capital in Greece: namely, the elimination of the danger of further monetary anomalies, and the ability of Greece to assume the burden of a regular annual service of private or public loans in foreign currency. The service of such loans, moreover, should prove easier in the long run, since the works constructed by means of these loans will further help to improve the balance of payments.

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3. Under the above conditions it is generally held that the terms for investment of foreign capital in Greece, both short and long-term, are quite advantageous. The advantages are increased still more compared with the past owing to:
 - (a) The relatively high interest rates prevailing in the Greek market, which offer a sufficient safety margin against the danger of eventual minor fluctuations in the value of the currency;
 - (b) The elimination of the discrepancy which previously existed between the purchasing powers of the Drachma at home and abroad, following the readjustment of the external value of the Drachma, and the relative under-valuation of our currency which helps to reduce production costs.
4. Capital investments in Greece may take the form of construction works, erection of factories, deliveries of capital goods, etc. Such investments will give rise to a fruitful cooperation between foreign and domestic capital, to which an important contribution can also be made by the Greek banking system, which is being reorganized following the merger of the National Bank of Greece and the Bank of Athens.
5. As far as the mobilization of Greek resources for the financing of Drachmae expenses under the programme of economic development is concerned, it has already been stated that in addition to the contribution made by the Budget and the counterpart funds derived from US aid, an effort will be made to attract Greek savings by floating a voluntary internal loan. The success of such a loan, contrary to what was the case in the past, should not be considered as unlikely at the present time. As a matter of fact, it has been remarked that although normal conditions have not yet been established in the money and capital market of the country similar to those established in its productive machinery, tendencies of a considerable improvement can be detected. An outward sign, as well as a beginning of this improvement, is the change noted in the direction followed by savings, which, instead of being invested mostly in gold sovereigns, as was the case up to 1952, or of being converted into stocks of consumer goods in order to escape the inflationary dangers, now tend to be used in the self-financing of enterprises or in other profitable investments. This form of productive utilization of savings has really been the first step, however small, in the direction of a mobilization of a part of private savings which previously had been hoarded. This has also brought about the downward trend of the price of the gold sovereign and helped to maintain economic activity at its previous level and, consequently, to keep up aggregate demand in spite of the sudden drop in bank credits.
6. This tendency of the price of the gold sovereign to drop expresses the falling off in the preference for gold, and might possibly be taken, in a way, to represent the favorable factors affecting the liquidity of Greek economy, business conditions and the balance of payments. If, therefore, the short-term measures taken by the Government concerning money, credit and public finances are ultimately able to check the rise in prices at its present level, namely a rise of about 30% in wholesale prices and 15% in retail prices from the time of readjustment until the beginning of August, the reversal noted in the preference for gold and the hoarding of goods will leave margins for a more creative utilization of savings and, in time, their steady orientation towards their natural trustees, the banks. This should also be aided by the fact that the national resources show an increase over last year (the gross national product for 1952-53 being estimated at roughly 34,900 milliard Drachmae) and are expected to rise by another 10% within the fiscal year 1953-54 just started. If not as proof, at least as an indication, of what has been said above with regard to the recovery of the money and capital market, the fact is that private deposits with banks increased between May and July 1953, by about 166 milliard Drachmae, which was considerably more than during the corresponding period in 1952 (only one milliard) and during the whole year of 1952 (140 milliards).

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7. Whether the upward tendency of prices can possibly be checked, which is an indispensable prerequisite for an improvement of conditions in the money market, largely depends upon:
 - (a) Maintaining income and the total purchasing power of the population at a level proportionate to the increase in the volume of goods produced and imported;
 - (b) More efficient control of note-circulation than in the past;
 - (c) Reducing, within a short time, the cost of, mainly, industrial production, so that Greek industry will be in a position to meet foreign competition, and prevent domestic demand from turning to goods imported from abroad, in excess of the country's foreign exchange availabilities.
8. If this latter were to happen, the Greek balance of payments, as well as the stability of prices, would be seriously endangered. In the more likely case, however, of the conditions mentioned before being fulfilled, a reasonable note expansion - in order to give short-term liquidity to the economy, at least until the necessary natural liquidity of the economy is restored mainly through the banks - should, by and large, be considered as devoid of dangers. From this point of view it should be considered that:
 - (a) The velocity of note-circulation has noticeably diminished - in other words, the psychological factor has been overcome. This is evidenced by the facts mentioned above, namely the reversal in the tendency to hoard gold sovereigns and to build up stocks of goods;
 - (b) The volume of notes in circulation is much smaller than in the pre-war period, in spite of its recent expansion due to the concentration of the wheat crop, the increase in foreign exchange reserves and rises in price, and although the pre-war national income was about 15% less than today.
9. Parallel to the setting up of the essential economic conditions which will constitute the firm basis on which to build all efforts at reconstruction and provide the real assurance for capital interested in investments in Greece, the Greek Government seeks to supply such capital with formal safeguards, especially regarding the re-export of profits, interest and its repatriation. To this effect, the Government has drafted a bill which will soon be submitted to Parliament. According to reliable information, this bill will constitute the charter for foreign capital invested in Greece and will have constitutional force under paragraph 112 of the new Constitution which says that "A Law will be issued which shall provide for protection of capital imported from abroad and invested in this Country."

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